

## THE INVESTMENT MARKET

135

since the act of B, the jobber, from whom he bought, in waiting for his money until the following account, constitutes in effect a loan of that amount. Similarly, the seller who continues is virtually placed in the position of a vendor with the stock for delivery, since in effect the stock he sold is lent to him for that purpose.

It should be carefully noted that continuations are thus in reality the creation of *new* bargains; the old ones being closed by the processes just described, and fresh ones contracted for the new account—these fresh contracts being based upon the "making-up" prices on which the differences were assessed.

A consideration has obviously to be paid for these rearrangements. In the case of an original buyer the charge is called a Contango,<sup>1</sup> and its amount depends partly upon the current rate of interest, for if the capital generally available for loans be scarce, the higher interest thus demanded will naturally tend to increase the contango; if, further, at the time the particular stock be plentiful the jobber (who sold it) will prefer<sup>2</sup> to deliver to the original buyer rather than consent to a continuation of the bargain and incur the risk of the stock becoming less available and, therefore, dearer: hence, if he agree to continue, he exacts a higher consideration; and the rate is also partly determined by the sound or risky nature of the security. If, on the contrary, the prevailing rate of interest be low and the particular stock be scarce, the original buyer may receive a payment termed a Backwardation,<sup>3</sup> instead

<sup>1</sup> Contango: the term is apparently an arbitrary or fortuitous for mation from the word "continue." This payment is obviously of the nature of interest upon the money which the buyer has, in effect, borrowed for the fortnight.

<sup>2</sup> For if the stock be now abundant its price will be cheaper, and the jobber, by delivering at once (purchasing for the purpose from another jobber or broker), is more likely to "close his account at a profit, since after a time (that is, while the supposed bargain is continued) the stock may

become less plentiful (a reduced quantity being offered for sale), and the jobber accordingly, by assenting to the continuation, thereby runs the risk of having to purchase at an enhanced price, and thus receiving a diminished profit, or even incurring a loss.

<sup>3</sup> Backwardation: derived from the verb " backward " (now obsolete), to put or keep back, or retard; the latest use, "to backward us," occurred in 1660; the termination *-aCion* (as in " retardation ") converts it into a noun.